

BOARD OF PUBLIC WORKS

Vision

The Board of Public Works exists to improve the quality of life of the customers we serve.

Mission

We are dedicated to providing our current and future customers with utility and other value added services in a safe, reliable, and economical manner consistent with sustainable growth, community involvement, and environmental stewardship.

Lewes Board of Public Works Special Meeting/Workshop was held in Lewes City Hall, Council Chambers, 114 East Third Street, Lewes, Delaware on Tuesday, February 24, 2015 at 4:00 PM.

Board Members Present:

*C. Wendell Alfred
D. Preston Lee
Jack Leshner
A. Thomas Owen*

Board Members Not Present:

Nancy Levenson

Ex-Officio Members Present:

*Theodore Becker, Mayor
Darrin Gordon, General Manager*

Others Present:

*Nick Roth, The Cape Gazette
Paul Eckrich, City Manager
Rob Morgan, Councilperson
Bonnie Osler, Councilperson
Marty D'Erasmus, 18 Ship Carpenter Square
Ellen Loraine McCabe, Lewes
Gary Stabley, 13 Harborview
Douglas Spelman, 121 Samantha Drive
Barbara Vaughan, 206 University Drive
Kristina Keller, BPW*

1. Welcome, Call Meeting to Order and Roll Call

At 4:00 PM, President Alfred called the Special Workshop to order. The purpose of this workshop is to allow the members of the Board and our citizens to review our operations and where we want to go in the future. It is our General Manager's opportunity to cover many subjects. There will be a question and answer period. Nancy Levenson is in California and unable to attend. All other Board members are present.

1. Proposed 2015-16 Budget. (D. Gordon)

Darrin Gordon said we are going to begin by going through the budget.

1. All Operating Revenue – We have a rate increase in the power that we are going to be paying. Currently we pay \$83.05 per kilowatt from DEMEC. For calendar year 2015, we will pay \$85.82. Our fiscal year goes from April 1 to March 31, so for the first three months of 2016, the rate will be increased to \$89.80. That is about a 4.5% increase. The weather plays a big part in water usage as well. We will also have about 55-60 new customers come online this year.
2. Other Revenue – This includes permits and late fees. 5% of Lines 1-5 go to the City. Line 17 will show what the City will be making.
3. Purchase Power – This is the kilowatts that we pay for that we charge our customers. Overall we will be spending 8.6% more. From last year's budget that is an increase of about \$500K.
4. Salaries, Wages & Benefits – I have an increase of up to 5% for the employees. Darrin has a handout of the 2009 Actual Expenditures due to questions about the increase. We had approximately 18 employees in 2009, 7 of which were at the end of their career at the BPW. The Salaries, Wages & Benefits costs were \$1.121M. There was a reduction at the end of that year of 5 employees due to retirement and we have maintained that reduction. We currently have 13 employees and we have them more work than in 2009. We did a rate survey with surrounding utilities and we are hitting the median to low end with most of our employees. Darrin discusses trying to seek quality employees and the struggle to do it because of our rate pay and the need to stay competitive. The pay increase is not an across the board raise.

5. Repairs & Maintenance – This is a significant increase and this is based on what we have done in the past two years. We are finally trying to retire some pipes and valves that are 100 years old. The wastewater treatment plant is hitting the ten year window and the costs are going to increase for the repairs and maintenance.
6. Administrative – This is going down by 5.76%. This includes my salary, the front office employee salaries, billing, meter reading, and some of the retirement. We are always looking to continue to improve these costs. Preston Lee asked Darrin to explain how the administrative costs are spread throughout the departments. Darrin briefly explains the allocation formula which is based on the input of each utility. Preston Lee thinks the administrative costs for the storm water seem too high. It is agreed that they will review that number.
7. Total of Operating Expenses – Increase of 4.53%. The difference in operating income from last year is about \$5K. We don't have a huge amount of increase in costs.
8. Interest Income – Lines 24-25 gives the investing income. About two years ago we hired UBS to invest our reserve fund for us. You have to express the accounting of these investments in two different ways; to explain the change in market value and interest and dividends. I put it on one line that we will make \$176K in investments. I believe we are going to make more than that, but I believe that number is safe and that is all I want to bank on.
9. Impact Fees – The variation is 430%. We are going to go from \$40K on water to \$212K. First, we will have Highland Acres come onto the system. Second, Jefferson Apartments is putting a 4-inch fire line around their buildings and we will receive some impact fees from that. The increase in the wastewater impact fees is due to Highland Acres.
10. Grant Money – We are applying for \$30K for the water, \$45K for the wastewater, both for Highland Acres, and we are finishing up a grant on the storm water that I am anticipate will be paid out after April 1st.
11. Interest Expense – the monies that we pay on our debt. We have four debts - \$700K for the electric system, another small one for \$1.2M, a large one for \$12M which helped pay for the wastewater treatment plant, and the last one was our 2005 bond together with the City which we are going to pay off and should be done by the end of March. With that, we can reduce the amount of interest expense that we pay on that debt, which is reflected on that line by a decrease of 38%. The Principal Payment has decreased. The discussion will be what we are going to do with money that we don't have to pay.

Darrin Gordon said in 2003 we had a resolution regarding our water rates. A rate study was done and the problem was that the electric department was subsidizing the water and sewer departments. The resolution said that the water-ready-to-serve charge needed to go to \$15.00 and in 2011 it needed to go up by 5% plus the Consumer Price Index. That would happen again in June 2012 with the 5% and the CPI, and then again in June 2013 by another 5%. Our water rates should be currently a minimum of \$17.00. They are not because of the resolution we passed that we would not continue to raise the rates. So the electric continues to subsidize the water. Resolution 10-004 for the wastewater that it had to come up by 15% plus the CPI for 2011-2013. We did not go through with that plan to get the wastewater and water back on its own feet. The Board has already helped reduce the rates to our citizens.

Darrin discusses the current sewer ready-to-serve charge and what it consists of and how it can be reduced to 15% savings to the customer as well as the additional saving to the BPW. Darrin explains the ready-to-serve charge and commodity charges associated with Lewes being a seasonal community, and how the rates have to reflect that. Discussion continues on this topic and Darrin answers specific questions from the Board. There is discussion about the payoff of the bond for the wastewater. There is a questions from the public about total debt including principal payment and interest payments and Darrin clarifies the total amount.

Rob Morgan:

The Board does not serve everyone electricity, so indirectly the subsidy of electricity to wastewater goes disproportionately to communities that only get water or wastewater. Would it be the effect of directing the whole of the savings from not having the bond in place to increase that subsidy by directing it to all who receive water and wastewater and not relieving those who pay electricity?

Darrin said sewer is the most nuclear. You have people that are outside the City who are subsidizing those that are in the City. I think the balance is very close. You also have the same with water. Certain communities are not affected by the rate as much as those inside the City. My recommendation is because the loan is heavily weighted where the debt is being paid because of where that money was spent and it really was an effect on the sewer department that by paying off that debt, the effect is mainly to the people who are sewer customers.

Darrin asked the Board to think this over. This is something that would be worthy of a resolution and it was agreed to wait until legal counsel is present to continue with it. Darrin clarifies at Tom Owen's request, that the ready-to-serve charge is currently \$50.00. If we didn't pay off the loan, this year we would hold where we are. With the payoff, the charge would decrease to \$42.50.

Darrin Gordon, at the request of Jack Leshner, explains why our costs are going up so greatly. Darrin said there the people who own the generators and there are the people who pay for it. The generators have gone to FERC and said the way the capacity charge is paid for is not fair and they need to pay more, and FERC agreed. It is more complicated than that, but government regulation is what is driving up the cost. They are shifting the costs because natural gas has come down.

2. Reserve Funds

Darrin Gordon said we have a policy that says in case of an emergency we have to have a certain amount of money we keep on

hand. That is our reserve fund. We need working lag of 25%, risk management reserve, current year capital improvements, five year capital improvements, customer deposits, self-insured, and a percent of all of those. We were supposed to review this on an annual basis in November and it was not done. \$8,250,000.00 is the minimum amount that we should always have so that if there is an emergency we can react to it. We have that. Our total cash balance is about \$19M. The Bank of New York bond payoff is \$3.317M that we have escrowed and it is on the books only to pay off the bond. The next remaining bond payoff that we have agreed to is the \$2.75M. The next minimum cash reserve comes from the \$8.25M. That leaves a subtotal of about \$5.2M. The next step is to look at the money we have currently committed. This includes the Savannah Road/Canal Crossing project at about \$1.1M. It also includes several 2015-16 projects of \$2.69M. So the total available dollars is \$1.497M over and above our reserves.

Preston Lee said that policy that was developed by people in the industry. So it is an industry-wide recommended policy.

3. Highland Acres

Darrin Gordon said is not officially annexed yet. We are waiting for the 60-day challenge period. We are still talking about the financing for Highland Acres. We have a secured loan through the state of Delaware. The total project estimate cost from GMB Engineering to put sewer lines to the homes, water lines to the homes, and a road is \$2.25M. If that ends up being the total cost, each home will owe \$40,251.00. When you use any state or federal money, the contractor has to use prevailing wages, which is a wage that is compatible with the unions. At the last SCAT meeting, it was said that can reduce the cost of a project by up to 30% by using prevailing wages. We used 20% on that estimate to be conservative.

Mayor Becker said it can vary he has discussed it with officials and it will probably not be known until the end of the session in June.

Discussion continues on prevailing wages and how it might be determined.

President Alfred said we received a letter from Jonathan Sharp asking for support to help finance funds for customers that cannot pay.

Darrin Gordon said we put in a water system for Savannah Place and the Board financed it, the customers were given a payment schedule to repay it. All of them except five have paid it off completely and the rest are continuing to pay it. We want to make it as palatable as possible for them. Jonathan Sharp has a home in both Savannah Place and Highland Acres and he is asking us to do it the same way. Given the numbers we have now, the payment per month for Highland Acres residents at 2% interest would be \$148.78. If we estimate the prevailing wages come off at 20%, it would be \$119.00. He also gives the numbers for a 3% interest rate not using state funds. I know of at least three homes that will be financially strapped. I believe we need to see if there is a way to help them. We have a resolution that says we do not give charities but to one organization. But is there a way that we can craft something to where it is not a charity but we are still helping them and we still win in the end. That is what I have prepared here. I have looked a two tier way of assisting them. I would offer this only to those people that we have identified that might need the help. I know of three, and possibly three others. First, I would look at their percent of net income from taxes to the state poverty level of Lewes. Second, I would look at their age. Darrin gives an example of this formula. I am asking for help on this and the question needs to be asked legally as well. Discussion continues on this topic including future growth, prevailing wages, legal issues, etc. It is agreed that the legal questions needs to be answered first and then discussion can go from there.

Marty D'Erasmus, 18 Ship Carpenter Square

You will be looking at what happens when say an 80-year old dies and the house goes into probate and what happens then?

Darrin said that all debt is due upon transfer of deed.

Is every home under a lien until this is paid off?

Tom Owen said the way the State is set up, you pay this off first before anything else.

President Alfred said there are so many situations and so many questions.

4. Pre-Annexation

Darrin Gordon said this is a map that shows our CPCN. A CPCN is a Certificate of Public Convenience and Necessity; a fancy way of saying it draws a line of areas I can serve, have to serve, and can't serve. This is our sewer CPCN. We have a responsibility as a Board when someone is outside the city limits they come in and sign a pre-annexation agreement. At that point in time, the Board's responsibility stops and that agreement is handed over to the Mayor. The idea of that pre-annexation agreement was to help people move towards annexation to Lewes. The CPCN states that we have the obligation and right to serve that area. Glenn Mandalas has said that it is a fairly weak document and we were approached by another attorney for a developer saying they can't be forced to sign it. I don't have an answer but the Board needs to visit this issue with the City Council and we need to decide what to do with that going forward.

Doug Spelman, Canary Creek:

Are you saying that we have wiggle room to get out of the CPCN? He discusses the situation at Harbor Point.

Darrin Gordon said I think we can give it up but I don't want to.

Mayor Becker said the pre-annexation agreement needs to be reviewed by both the BPW and the City before it goes out again. Doug is right and we have no leverage.

Discussion continues about pre-annexation agreement, who it benefits, and the CPCN agreement versus the pre-annexation agreement.

Darrin said the CPCN is over a certain map area. We deal with two customers, individuals and developers, and they have to be

dealt with differently.

Mayor Becker said this is not an easy answer and it will take some research to get an answer.

Marty D'Erasmus, 18 Ship Carpenter Square:

If there was a decision it was not in the City's best interest to serve a particular customer, can you decline service, even though you have this obligation to serve?

There is discussion in response to this question about whether that is possible or not.

Barbara Vaughn, 206 University Drive:

You were kind enough to come to the Planning Commission one night to explain the CPCN's and not all of them are for all three utilities. So that adds another complication

Gary Stabley, 13 Harbor View Road:

This discussion should not be taking place until you have clear legal interpretation of what is going on. Otherwise it is just speculation and misinformation. I think it is inappropriate until the attorney is here and either he gives a written opinion that all parties understand.

Rob Morgan:

Has Harbor Point already signed a pre-annexation agreement?

Darrin said yes and it was given to the Mayor and I have signed a will serve agreement with them.

5. Other Capital Projects

Darrin Gordon said we had a study done for a water tank for what it would cost to paint, refurbish and get it back up to standards. The estimate is about \$600K for a 300K gallon tank. We got several estimates as well for the cost for a brand new tank of varying sizes. I am undecided on my opinion of what we should do. It is agreed that the size of the current tank is sufficient and serves the BPW's needs.

6. Board Self-Evaluation

Darrin Gordon brought up the topic of paperless meetings. I believe it would be appropriate to get small computers or iPads for the Board where we can get you information in a timely manner. Most people have their own devices where they can follow along. I have put that in the budget to purchase it.

Preston Lee said no. I don't understand why the Board should buy them for our use. We all have our own personal devices.

President Alfred said this is happening everywhere and I think of the ease for the staff to get us current information. It saves time and money and paper.

President Alfred said after the decision to move forward and pay off the bond I received calls from former President Stabley, former Board member Richmann, and for Board member Gayheart all saying thank you to the Board and Darrin and the staff for what we have done.

Gary Stabley, 13 Harborview Road:

The intent of what you did was started back when because when you have debt it costs everybody. How much is the total debt that you owe now? You are carrying it out on your balance sheet as a liability, correct? The sooner you pay down that debt the more relief there is. By paying that bond you have freed up money that you did not have before. So keep that in mind because otherwise you are stretching out that payment. On Line 27, it gives a total of principal payments of \$695K. That is not included in your expense, it's a balance sheet item. You have to take that minus the balance you are carrying in column N of \$1M, so your net is really about \$400K. Anyone who looks at that \$1.1M, remember you have to have the money to pay that and so people don't think you have a \$1.1M balance.

Preston Lee said these loans are very low rate loans

Bonnie Osler, 901 Savannah Road:

What is your profit margin when you sell electricity? Do you mark it up and what are those numbers?

Darrin said yes we mark it up. I will get that information for you.

If I understand correctly, you have \$870K budgeted for salaries and you have 13 employees? That comes to \$67K as an average salary.

Darrin said that includes all of your benefits.

As a state regulated utility, are you free to not pay prevailing wages?

Darrin said yes we are because we are using state money?

5. Adjournment.

President Alfred adjourned the meeting at 5:51PM.

Respectfully submitted,
Stephanie Moyer